

FAYETTE COUNTY SCHOOL DISTRICT

**Basic Financial Statements and Supplementary
Information**

Year Ended June 30, 2005

FAYETTE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District (the "District") as of June 30, 2005 and for the year then ended which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District as of June 30, 2005 and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2005 on our consideration of Fayette County School District's internal control structure and a report dated October 19, 2005, on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 - 8 and 43 - 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The combining nonmajor fund financial statements and the schedule of expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mountainjoy & Brasher, L.L.P.

Lexington, Kentucky
October 19, 2005

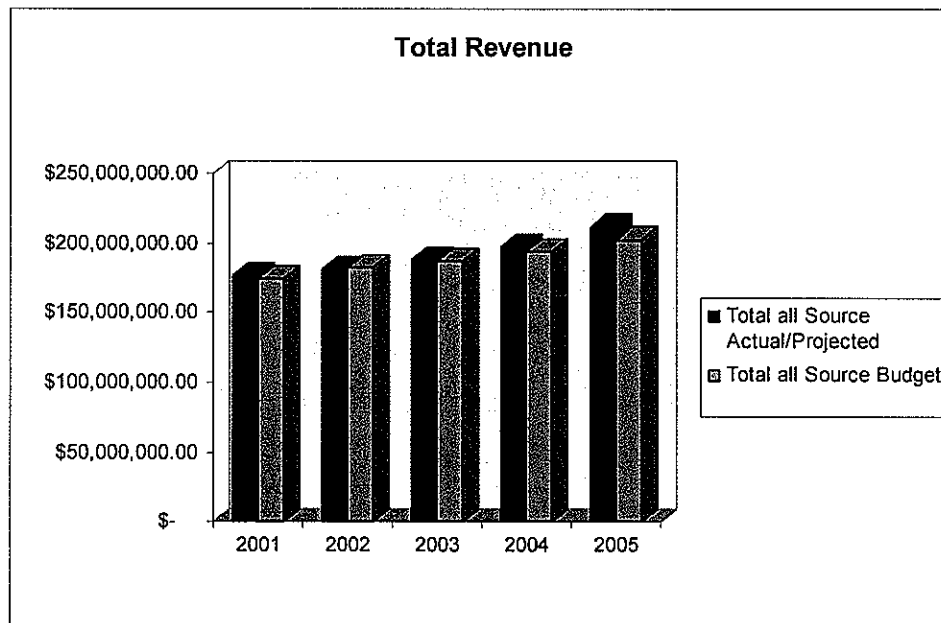
**FAYETTE COUNTY PUBLIC SCHOOL DISTRICT – LEXINGTON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Fayette County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the fourth year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$ 94.9 million in 2005 and \$ 52.9 million in 2004. This change was the result of the issuance of bonds to build a new high school and elementary school.
- From 2004 to 2005, total general fund revenue increased by 5.2%. Revenue from local sources increased 9% while revenue from the state decreased 1%.

Total Revenue General Fund



- Among major funds, the General Fund had \$244 million in revenue, which primarily consisted of local property, local occupational license taxes, utilities and motor vehicle taxes, federal programs and state funding (the SEEK program). There were \$233 million in expenditures.
- A major focus for the year was refocusing on student achievement through the leadership of Superintendent Stuart Silberman. Mr. Silberman led the district in leadership development using the Maxwell model. All staff were encouraged to become involved and contribute toward student achievement. Academic staff focused on student achievement, leadership development and mentoring. Support staff also participated in the leadership training and mentoring. Superintendent Silberman challenged everyone provide client friendly support services.
- The State continued to mandate a salary increases for teachers and classified staff that were not funded.
- The Board and Superintendent Silberman created opportunities for our community to become involved in student achievement through the "20/20 Vision" initiative. This has been a great success as community leaders and citizens have met in small groups focused on topics to develop an achievement plan for the year 2020.
- Community leaders came together to form the Fayette County Education Foundation. Business leaders donated seed funds and a fund raising program is being developed.
- The District's long-range plan for facilities continued during fiscal year 2005. Bonds were issued for the construction of the new Bryan Station High and the Athen-Chilesburg Elementary schools. The high school is being built at a cost of \$44 million and the elementary construction cost total \$13 million. Near term plans include consolidating some inner city schools into a new centrally located school and addressing the new housing growth on both the east and west end of the county.
- The District is partnering with Lexmark to ensure that the new Bryan Station High School opens with state of the art technology.
- The business and operations arm of the District has been restructured with the appointment of a Chief Operating Officer in January. Further refinement in the structure is continuing as the business and operations staff evaluate processes and allocation of resources.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. Activity Funds are also classified as fiduciary funds. The proprietary fund includes the food service fund. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are **not** available for future spending. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005

This is the fourth year that the District is following GASB 34 and comparing assets, liabilities and net assets.

2005 Government Wide Net Asset compared to 2004 follows:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 118,317,641	\$ 74,130,483
Noncurrent Assets	<u>221,592,396</u>	<u>208,695,567</u>
Total Assets	<u>\$ 339,910,037</u>	<u>\$ 282,826,050</u>
Current Liabilities	\$ 35,661,158	\$ 40,236,683
Noncurrent Liabilities	<u>183,622,096</u>	<u>138,660,385</u>
Total Liabilities	<u>\$ 219,283,254</u>	<u>\$ 178,897,068</u>
Net Assets		
Investment in capital assets (net of related debt)	\$ 30,365,275	\$ 63,389,706
Restricted	66,661,997	26,249,624
Unrestricted	<u>23,599,511</u>	<u>14,289,652</u>
Total Net Assets	<u>\$ 120,626,783</u>	<u>\$ 103,928,982</u>

There have been no significant change in the financial position of the district since the last audit.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Revenues:		
Local revenue sources	\$ 156,697,607	\$ 144,474,738
State revenue sources	75,524,900	75,410,042
Federal sources	25,070,033	16,151,176
Intermediate sources	518,024	206,350
Investments	1,897,805	973,310
Other sources	2,569,159	2,172,856
Bond proceeds	52,348,793	0
Total revenues	<u>\$ 314,626,321</u>	<u>\$ 239,388,472</u>
Expenses:		
Instruction	\$ 134,907,793	\$ 131,591,498
Student support services	16,449,301	14,076,362
Instructional support	15,999,295	14,221,426
District administration	2,084,728	1,881,330
School administration	18,656,088	17,654,560
Business support	13,822,472	11,192,691
Plant operations	37,014,096	35,418,912
Student transportation	9,025,130	9,028,437
Central office support	594,012	729,212
Community support	2,234,447	2,337,128
Other	13,867,067	13,209,281
Total expenses	<u>\$ 264,654,429</u>	<u>\$ 251,340,837</u>
Revenue in Excess of Expense	<u>\$ 49,971,892</u>	<u>\$ (11,952,365)</u>

On-behalf payments are not included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Expenses that declined from 2004 to 2005 include central office support and community support. The changes in the balances and transactions of individual funds have not been material. Changes in final budget when compared to original are not material.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1- June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. The district adopted a budget for 2005 with \$ 10.7 million in contingency that is approximately 4.4%. Significant Board action that impacts the finances includes the allotment of \$57 million for facility construction and renovation projects. The district is the second largest in the state with 35,530 students and is the second largest employer in the county.

This audit is posted on the District website (www.fcps.net). Questions regarding this report should be directed to Stuart Silberman, Superintendent (859) 381-4104, Mary Browning, Chief Operating Officer (859) 381-4165 or by mail at 701 East Main Street, Lexington, KY 40502.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

Year ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 92,487,394	\$ 2,366,229	\$ 94,853,623
Restricted cash	516,179	-	516,179
Inventory	1,627,641	291,905	1,919,546
Accounts receivable			
Taxes - current	6,798,012	-	6,798,012
Taxes - delinquent	75,313	-	75,313
Intergovernmental - state	3,207,262	-	3,207,262
Intergovernmental - indirect federal	5,931,302	551,835	6,483,137
Intergovernmental - direct federal	513,714	-	513,714
Due from other funds	542,142	-	542,142
Other receivables	2,542,764	80,512	2,623,276
Prepaid expenses	785,437	-	785,437
Total current assets	115,027,160	3,290,481	118,317,641
Noncurrent assets			
Capital assets, net	186,359,606	2,082,229	188,441,835
Non-depreciable capital assets	31,678,923	-	31,678,923
Bond issue costs	1,068,502	-	1,068,502
Investments	403,136	-	403,136
Total noncurrent assets	219,510,167	2,082,229	221,592,396
Total assets	\$ 334,537,327	\$ 5,372,710	\$ 339,910,037
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,522,474	\$ 64,740	\$ 6,587,214
Accrued payroll and related expenses	10,448,417	-	10,448,417
Due to other funds	-	542,142	542,142
Interest payable	2,181,200	-	2,181,200
Current portion of long term bond obligations	7,816,406	-	7,816,406
Current portion of capital lease obligations	824,825	-	824,825
Current portion of accumulated sick leave	1,210,718	-	1,210,718
Deferred revenue	6,050,236	-	6,050,236
Total current liabilities	35,054,276	606,882	35,661,158
Noncurrent liabilities			
Noncurrent portion of long term bond liabilities	180,305,000	-	180,305,000
Noncurrent portion of capital lease obligations	4,280,769	-	4,280,769
Noncurrent portion of accrued sick leave	1,439,342	-	1,439,342
Deferred loss on advanced refunding of debt	(2,403,015)	-	(2,403,015)
Total noncurrent liabilities	183,622,096	-	183,622,096
Total liabilities	\$ 218,676,372	\$ 606,882	\$ 219,283,254
NET ASSETS			
Invested in capital assets, net of related debt	\$ 28,283,046	\$ 2,082,229	\$ 30,365,275
Restricted for:			
Capital projects	60,243,503	-	60,243,503
Other purposes (non expendable)	6,418,494	-	6,418,494
Unrestricted	20,915,912	2,683,599	23,599,511
Total net assets	\$ 115,860,955	\$ 4,765,828	\$ 120,626,783

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ 172,180,881	\$ 917,852	\$ 38,330,797	\$ -	\$ (132,932,232)	\$ -	\$ (132,932,232)
Support services							
Student	17,252,096	-	-	-	(17,252,096)	-	(17,252,096)
Instruction staff	16,340,219	-	-	-	(16,340,219)	-	(16,340,219)
District administration	2,229,108	-	-	-	(2,229,108)	-	(2,229,108)
School administration	20,077,328	-	-	-	(20,077,328)	-	(20,077,328)
Business	14,179,552	-	-	-	(14,179,552)	-	(14,179,552)
Plant operation and maintenance	20,103,593	92,203	-	-	(20,011,390)	-	(20,011,390)
Student transportation	9,007,485	246,198	-	-	(8,761,287)	-	(8,761,287)
Central office	588,539	-	-	-	(588,539)	-	(588,539)
Community service activities	2,213,745	-	114,579	-	(2,099,166)	-	(2,099,166)
Interest on long-term debt	6,532,128	-	-	-	(6,532,128)	-	(6,532,128)
Other expenditures	41,669	-	-	-	(41,669)	-	(41,669)
Total governmental activities	280,746,343	1,256,253	38,445,376	-	(241,044,714)	-	(241,044,714)
Business-Type Activities							
Food service	13,003,568	5,624,543	6,634,343	790,937	-	46,255	46,255
Total business-type activities	13,003,568	5,624,543	6,634,343	790,937	-	46,255	46,255
Total primary government	\$ 293,749,911	\$ 6,880,796	\$ 45,079,719	\$ 790,937	\$ (241,044,714)	\$ 46,255	\$ (240,998,459)
General Revenues:							
Property taxes					\$ 104,221,251	\$ -	\$ 104,221,251
Occupational & license tax					26,242,949	-	26,242,949
Motor vehicle taxes					8,936,388	-	8,936,388
Utility taxes					17,297,019	-	17,297,019
Investment earnings and adjustments to market value					1,890,513	57,798	1,948,311
State aid formula grants					97,902,249	-	97,902,249
Gains on sale of fixed assets					84,800	-	84,800
Transfers					41,782	(41,782)	-
Miscellaneous					1,063,293	-	1,063,293
Total general revenues					257,680,244	16,016	257,696,260
Change in net assets					16,635,530	62,271	16,697,801
Net assets, beginning of year					99,225,425	4,703,557	103,928,982
Net assets, end of year					\$ 115,860,955	\$ 4,765,828	\$ 120,626,783

See accompanying independent auditor's report and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and resources						
Cash and cash equivalents	\$ 33,508,675	\$ (4,881,534)	\$ -	\$ 61,132,459	\$ 2,727,794	\$ 92,487,394
Restricted cash	-	-	516,179	-	-	516,179
Inventory	1,627,641	-	-	-	-	1,627,641
Accounts receivable						
Taxes - current	6,734,182	-	-	-	63,830	6,798,012
Taxes - delinquent	75,313	-	-	-	-	75,313
Intergovernmental - state	-	3,207,262	-	-	-	3,207,262
Intergovernmental - indirect federal	-	5,931,302	-	-	-	5,931,302
Intergovernmental - direct federal	-	513,714	-	-	-	513,714
Accounts receivable	705,325	1,837,439	-	-	-	2,542,764
Prepaid expenses	785,437	-	-	-	-	785,437
Due from other funds	542,142	-	-	-	-	542,142
Total assets and resources	\$ 43,978,715	\$ 6,608,183	\$ 516,179	\$ 61,132,459	\$ 2,791,624	\$ 115,027,160
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 2,765,704	\$ 503,273	\$ -	\$ 3,253,498	\$ -	\$ 6,522,475
Accrued payroll and related expenses	10,393,743	54,674	-	-	-	10,448,417
Current portion of accrued sick leave	1,210,718	-	-	-	-	1,210,718
Deferred revenue	-	6,050,236	-	-	-	6,050,236
Total liabilities	14,370,165	6,608,183	-	3,253,498	-	24,231,846
Fund balances						
Reserved						
Encumbrances	3,679,050	1,393,047	-	-	-	5,072,097
Debt service	-	-	516,179	-	-	516,179
Unreserved						
Undesignated, reported in:						
General fund	25,929,500	-	-	-	-	25,929,500
Special revenue funds	-	(1,393,047)	-	-	-	(1,393,047)
Capital projects	-	-	-	57,878,961	2,364,542	60,243,503
Permanent funds	-	-	-	-	427,082	427,082
Total fund balances	29,608,550	-	516,179	57,878,961	2,791,624	90,795,314
Total liabilities and fund balances	\$ 43,978,715	\$ 6,608,183	\$ 516,179	\$ 61,132,459	\$ 2,791,624	\$ 115,027,160

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS**

June 30, 2005

Total fund balance per fund financial statements	\$ 90,795,314
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	218,038,529
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures, but they are reported in the statement of net assets.	1,471,638
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable but they are presented in the statement of net assets.	<u>(194,444,526)</u>
Net assets of governmental activities	\$ <u>115,860,955</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2005

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Property taxes	\$ 94,277,412	\$ -	\$ -	\$ -	\$ 9,943,839	\$ 104,221,251
Motor vehicle taxes	8,103,338	-	-	-	833,050	8,936,388
Utility taxes	17,297,019	-	-	-	-	17,297,019
Occupational and license tax	26,242,949	-	-	-	-	26,242,949
Tuition and fees	109,193	511,905	-	-	-	621,098
Earnings on investments	1,128,798	11,346	208,908	412,679	136,074	1,897,805
Other local revenues	1,508,314	70,023	-	201,181	33,511	1,813,029
Intergovernmental - intermediate	-	518,024	-	-	-	518,024
Intergovernmental - state						
SEEK	59,772,727	-	-	-	-	59,772,727
On-behalf revenues	35,119,792	-	-	-	-	35,119,792
Other	-	10,082,436	2,660,007	-	3,009,730	15,752,173
Intergovernmental - direct	-	23,020,783	-	-	-	23,020,783
Intergovernmental - federal - indirect	723,947	1,325,600	-	-	-	2,049,547
Total revenue	<u>244,283,489</u>	<u>35,540,117</u>	<u>2,868,915</u>	<u>613,860</u>	<u>13,956,204</u>	<u>297,262,585</u>
Expenditures						
Instruction	144,305,804	19,899,966	-	-	-	164,205,770
Support services						
Student	13,010,955	4,664,872	-	-	-	17,675,827
Instruction staff	11,531,212	5,418,801	-	-	-	16,950,013
District administration	2,192,053	14,650	-	-	-	2,206,703
School administration	19,152,817	678,292	-	-	-	19,831,109
Business	13,692,011	109,656	-	-	551,833	14,353,500
Plant operation and maintenance	19,567,101	533,290	-	-	-	20,100,391
Student transportation	9,704,043	10,663	-	-	-	9,714,706
Central office	-	594,012	-	-	-	594,012
Facilities acquisition and construction	-	351	-	18,040,325	-	18,040,676
Community service activities	81,290	2,136,322	-	-	16,835	2,234,447
Debt service	-	-	13,867,067	-	-	13,867,067
Total expenditures	<u>233,237,286</u>	<u>34,060,875</u>	<u>13,867,067</u>	<u>18,040,325</u>	<u>568,668</u>	<u>299,774,221</u>
Excess (deficit) of revenues over expenditures	11,046,203	1,479,242	(10,998,152)	(17,426,465)	13,387,536	(2,511,636)

See accompanying independent auditor's report and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2005

	General Fund	Special Revenue	Debt Service	Construction Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses)						
Proceeds from sale of bonds	-	-	-	52,348,793	-	52,348,793
Proceeds from sale of fixed assets	92,953	-	-	-	-	92,953
Operating transfers in	2,047,719	611,207	11,514,331	8,524,545	-	22,697,802
Proceeds from refunding Debt	-	-	28,395,693	-	-	28,395,693
Payment to Refunded Debt Escrow Agent	-	-	(28,395,693)	-	-	(28,395,693)
Operating transfers out	(4,770,123)	(2,090,449)	-	-	(15,795,448)	(22,656,020)
Total other financing sources (uses)	<u>(2,629,451)</u>	<u>(1,479,242)</u>	<u>11,514,331</u>	<u>60,873,338</u>	<u>(15,795,448)</u>	<u>52,483,528</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	8,416,752	-	516,179	43,446,873	(2,407,912)	49,971,892
Fund balance, June 30, 2004	<u>21,191,798</u>	<u>-</u>	<u>-</u>	<u>14,432,088</u>	<u>5,199,536</u>	<u>40,823,422</u>
Fund balance, June 30, 2005	<u>\$ 29,608,550</u>	<u>\$ -</u>	<u>\$ 516,179</u>	<u>\$ 57,878,961</u>	<u>\$ 2,791,624</u>	<u>\$ 90,795,314</u>

See accompanying independent auditor's report and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2005

Net change in total fund balances per fund financial statements	\$ 49,971,892
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation for the year.	10,747,926
Unrealized gains and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities.	(7,293)
Bond issuance costs are recognized as expenditures of current financial financial resources in the fund financial statement but are capitalized and amortized in the statement of activities.	(41,669)
Gains and losses are not presented in this financial statement because they do not provide or use current financial resources, but they are presented in the statement of activities.	(8,153)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	<u>(44,027,173)</u>
Change in net assets of governmental activities	\$ <u>16,635,530</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2005

	Food Service Fund	Other Enterprise Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,366,229	\$ -	\$ 2,366,229
Inventory	291,905	-	291,905
Accounts receivable			
Intergovernmental - indirect federal	551,835	-	551,835
Other receivables	<u>80,512</u>	<u>-</u>	<u>80,512</u>
Total current assets	<u>3,290,481</u>	<u>-</u>	<u>3,290,481</u>
Noncurrent assets			
Capital assets	6,592,473	-	6,592,473
Less: accumulated depreciation	<u>(4,510,244)</u>	<u>-</u>	<u>(4,510,244)</u>
Total noncurrent assets	<u>2,082,229</u>	<u>-</u>	<u>2,082,229</u>
Total assets	<u>\$ 5,372,710</u>	<u>\$ -</u>	<u>\$ 5,372,710</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 64,740	\$ -	\$ 64,740
Due to other funds	<u>542,142</u>	<u>-</u>	<u>542,142</u>
Total current liabilities	<u>606,882</u>	<u>-</u>	<u>606,882</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,082,229	-	2,082,229
Unrestricted	<u>2,683,599</u>	<u>-</u>	<u>2,683,599</u>
Total net assets	<u>\$ 4,765,828</u>	<u>\$ -</u>	<u>\$ 4,765,828</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

Year ended June 30, 2005

	Food Service Fund	Other Enterprise Fund	Total
Operating revenues			
Lunchroom sales	\$ 5,291,029	\$ -	\$ 5,291,029
Other operating revenues	<u>333,514</u>	<u>-</u>	<u>333,514</u>
Total operating revenues	<u>5,624,543</u>	<u>-</u>	<u>5,624,543</u>
Operating expenses			
Salaries and wages	6,467,801	-	6,467,801
Materials and supplies	6,175,108	-	6,175,108
Depreciation	<u>360,659</u>	<u>-</u>	<u>360,659</u>
Total operating expenses	<u>13,003,568</u>	<u>-</u>	<u>13,003,568</u>
Operating loss	(7,379,025)	-	(7,379,025)
Non-operating revenues (expenses)			
Federal grants	5,920,506	-	5,920,506
Donated commodities	790,937	-	790,937
State grants	713,837	-	713,837
Interest income	57,798	-	57,798
Transfers out	<u>-</u>	<u>(41,782)</u>	<u>(41,782)</u>
Total non-operating revenues	<u>7,483,078</u>	<u>(41,782)</u>	<u>7,441,296</u>
Changes in net assets	104,053	(41,782)	62,271
Net assets, beginning of year	<u>4,661,775</u>	<u>41,782</u>	<u>4,703,557</u>
Net assets, end of year	<u>\$ 4,765,828</u>	<u>\$ -</u>	<u>\$ 4,765,828</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

Year ended June 30, 2005

Cash Flows From Operating Activities

Cash received from:

Lunchroom sales	\$ 5,242,993
Governmental grants	5,938,149
Other activities	445,656

Cash paid for:

Employees	(6,054,271)
Supplies	<u>(5,358,652)</u>

Net cash provided by operating activities 213,875

Cash Flows From Capital and Related Financing Activities

Purchases of capital assets (238,997)

Cash Flows From Investing Activities

Receipt of interest income 57,798

Net increase in cash and cash equivalents 32,676

Balance, beginning of year 2,333,553

Balance, end of year \$ 2,366,229

Reconciliation of changes in net assets to net cash provided by operating activities:

Changes in net assets \$ 62,271

Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation	360,659
Interest income	(57,798)
Changes in assets and liabilities	
Receivables	(29,702)
Inventory	31,972
Accounts payable	(7,134)
Accrued payroll and related expenses	(65,229)
Due to other funds	<u>(81,164)</u>

Net cash provided by operating activities \$ 213,875

Schedule of non-cash transactions

Donated commodities received from federal government: \$ 790,937

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ (57,257)	\$ 2,038,897
Accounts receivable	-	12,720
Loans Receivable	244,348	-
Investments	<u>918,961</u>	<u>-</u>
Total assets	<u>\$ 1,106,052</u>	<u>\$ 2,051,617</u>
Liabilities		
Accounts payable	\$ -	\$ 85,648
Due to student groups	<u>-</u>	<u>1,965,969</u>
Total liabilities	<u>-</u>	<u>2,051,617</u>
Net Assets Held in Trust	<u>\$ 1,106,052</u>	<u>\$ -</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year ended June 30, 2005

	<u>Private Purpose Trust Funds</u>
Additions	
Net interest and investment gains	\$ 72,257
Deductions	
Benefits paid	<u>-</u>
Change in net assets	72,257
Net assets, beginning of year	<u>1,033,795</u>
Net asset, end of year	<u>\$ 1,106,052</u>

See accompanying independent auditor's report
and notes to financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fayette County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Fayette County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fayette County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or are dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Fayette County Board of Education Finance Corporation - On December 10, 1990 the Board of Education resolved to authorize the establishment of the Fayette County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Fayette County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 - 47. This is a major fund of the District.
- (C) The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law.
- II. Proprietary Fund Types (Enterprise Fund)
 - (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
 - (B) The business agent fund was used to account for vending machine revenues. Beginning July 1, 2004, this fund was transferred to Special Revenue Funds.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- III. Fiduciary Fund Type (Agency and Private Purpose Funds)
 - (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
 - (B) The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005 were \$0.480 per \$100 valuation for real property, \$0.483 per \$100 valuation for business personal property and \$0.592 per \$100 valuation for motor vehicles.

The District levies a 3.0% utility tax on all businesses and households within the District.

In addition, the District levies an occupational license tax of 0.5% on salaries, wages, commissions and other compensation of individuals for work done and services performed or rendered in the county and on the net profits of all businesses, professions or occupations from activities conducted in the county.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, undeposited funds and other investments with an original maturity of 90 days or less, to be cash equivalents.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted Cash

Restricted cash consists of cash in banks restricted for debt service.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund inventory is stated at cost and uses the specific identification method and the general fund inventory is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, accumulated sick leave, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2005

NOTE C - CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Fifth Third	\$101,713,090	\$ 94,796,366
Central Bank (agency funds)	<u>2,166,313</u>	<u>2,038,897</u>
	<u>\$103,879,403</u>	<u>\$ 96,835,263</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 92,487,394
Proprietary funds	2,366,229
Private purpose trust funds	(57,257)
Agency funds	<u>2,038,897</u>
	<u>\$ 96,835,263</u>

NOTE D - INVESTMENTS

As of June 30, 2005, the District had the following investments:

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Governmental	U.S. Treasury Notes	\$ 403,136	2007
Private purpose trust	Mutual Funds	<u>918,961</u>	N/A
	Total	<u>\$ 1,322,097</u>	

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is allowed by state statute to invest in U.S. government agencies and U.S. treasuries which are obligations of the United States government pledged by its full faith and credit. The District does not have any legal or contractual provisions related to the investments held in the private purpose trust funds. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2005

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE E- CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>Governmental Activities</u>				
Cost				
Land	\$ 6,991,053	\$ 67,655	\$ -	\$ 7,058,708
Buildings and improvements	281,117,575	11,652,827	-	292,770,402
Technology equipment	24,540,812	2,474,941	903,702	26,112,051
Rolling stock	349,655	-	-	349,655
Audio-visual equipment	1,220,698	18,784	8,000	1,231,482
Other	3,238,610	464,500	4,829	3,698,281
Furniture and Fixtures	271,284	21,793	-	293,077
Vehicles	15,457,357	1,738,696	1,401,227	15,794,826
Food service equipment	58,070	-	-	58,070
Construction in progress	<u>17,372,345</u>	<u>7,247,870</u>	<u>-</u>	<u>24,620,215</u>
Totals at historical cost	<u>\$350,617,459</u>	<u>\$ 23,687,066</u>	<u>\$ 2,317,758</u>	<u>\$371,986,767</u>

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

	Balance July 1, 2004	Depreciation	Disposals	Balance June 30, 2005
Accumulated Depreciation				
Buildings and improvements	\$110,001,715	\$ 8,270,031	\$ -	\$118,271,746
Technology equipment	20,332,482	1,893,151	896,721	21,328,912
Rolling stock	121,038	19,920	-	140,958
Audio-visual equipment	548,913	77,198	6,900	619,211
Other	2,545,207	190,705	4,757	2,731,155
Furniture and fixtures	113,939	14,180	-	128,119
Vehicles	11,302,307	775,116	1,401,227	10,676,196
Food service equipment	<u>50,269</u>	<u>1,672</u>	<u>-</u>	<u>51,941</u>
Total accumulated depreciation	<u>\$145,015,870</u>	<u>\$ 11,241,973</u>	<u>\$ 2,309,605</u>	<u>\$153,948,238</u>

Governmental Activities

Depreciable capital assets, net	181,238,191	186,359,606
Non-depreciable capital assets	<u>24,363,398</u>	<u>31,678,923</u>

Total governmental activities capital assets, net	<u>\$205,601,589</u>	<u>\$218,038,529</u>
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	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<u>Business-Type Activities</u>				
Cost				
Food service equipment	\$ 5,880,033	\$ 236,655	\$ 14,150	\$ 6,102,538
Technology equipment	<u>500,593</u>	<u>2,342</u>	<u>13,000</u>	<u>489,935</u>
Totals at historical cost	<u>\$ 6,380,626</u>	<u>\$ 238,997</u>	<u>\$ 27,150</u>	<u>\$ 6,592,473</u>

	Balance July 1, 2004	Depreciation	Disposals	Balance June 30, 2005
Accumulated Depreciation				
Food service equipment	\$ 3,907,463	\$ 298,110	\$ 14,150	\$ 4,191,423
Technology equipment	<u>269,272</u>	<u>62,549</u>	<u>13,000</u>	<u>318,821</u>
Total accumulated depreciation	<u>\$ 4,176,735</u>	<u>\$ 360,659</u>	<u>\$ 27,150</u>	<u>\$ 4,510,244</u>

Business-Type Activities

Depreciable capital assets, net	<u>\$ 2,203,891</u>	<u>\$ 2,082,229</u>
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FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

Depreciation expense for the year ended June 30, 2005 for governmental activities by function is summarized below:

Instructional	\$ 9,999,404
Instruction student support	176,830
Instruction staff support	158,701
District administration	31,800
School administration	269,555
Business support services	192,582
Plant operations and maintenance	276,688
Student transportation	135,224
Community services	<u>1,189</u>
Total	<u>\$ 11,241,973</u>

NOTE F - CAPITAL LEASE OBLIGATIONS

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 1,001,506
2007	807,794
2008	634,943
2009	635,690
2010	626,859
thereafter	<u>2,199,452</u>
Total minimum lease payment	5,906,244
Less amount representing interest	<u>800,650</u>
Present value of net minimum lease payments	5,105,594
Current portion of capital lease obligations	<u>824,825</u>
Non-current maturities of capital lease obligations	<u>\$ 4,280,769</u>

The following is an analysis of the leased property under capital lease:

<u>Class of Property</u>	<u>Book value as of June 30, 2005</u>
Buses	\$ 4,938,482

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2005

NOTE G - BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1992B	\$ 11,205,000	2.750% - 6.000%
1995A	1,100,000	4.950% - 5.100%
1995B	6,275,000	4.750% - 4.880%
1995C	26,605,000	4.500% - 5.250%
1996	14,785,000	5.000% - 5.700%
1997	17,710,000	5.000% - 5.375%
1998	15,575,000	4.375% - 4.500%
1999	27,330,000	5.000% - 5.500%
2000	14,365,000	5.300% - 5.500%
2001	12,880,000	4.000% - 5.250%
2002	7,095,000	1.900% - 4.125%
2003A	17,505,000	2.000% - 4.500%
2003B	1,070,000	1.100% - 1.250%
2004A	13,505,000	2.500% - 3.750%
2004B	15,160,000	2.500% - 4.000%
2005A	52,710,000	4.000% - 5.000%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fayette County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity by the District and redemption premiums are specified in each issue. As of June 30, 2005 the total bond principal and interest due was \$188,121,406 and \$93,139,831, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2005-2006	\$ 7,816,406	\$ 8,414,073	\$ 3,506,466	\$ 12,724,013
2006-2007	8,685,000	8,016,049	3,436,315	13,264,734
2007-2008	8,830,000	7,610,533	3,430,608	13,009,925
2008-2009	8,235,000	7,222,163	2,481,926	12,975,237
2009-20010	7,370,000	6,911,639	1,293,434	12,988,205
2010-2011	7,710,000	6,621,438	1,291,830	13,039,608
2011-2012	7,940,000	6,310,092	1,117,099	13,132,993
2012-2013	8,405,000	5,991,653	1,081,262	13,315,391
2013-2014	8,755,000	5,663,847	964,371	13,454,476
2014-2015	9,410,000	5,285,227	964,371	13,730,856
2015-2016	10,145,000	4,867,912	964,370	14,048,542
2016-2017	11,330,000	4,414,056	964,370	14,779,686
2017-2018	11,855,000	3,851,409	964,372	14,742,037
2018-2019	12,470,000	3,255,328	949,498	14,775,830
2019-2020	13,060,000	2,652,262	870,283	14,841,979
2020-2021	10,150,000	2,113,125	788,546	11,474,579
2021-2022	10,530,000	1,656,775	788,545	11,398,230
2022-2023	11,100,000	1,199,000	788,546	11,510,454
2023-2024	6,985,000	716,250	788,546	6,912,704
2024-2025	<u>7,340,000</u>	<u>367,000</u>	<u>788,546</u>	<u>6,918,454</u>
	<u>\$ 188,121,406</u>	<u>\$ 93,139,831</u>	<u>\$ 28,223,304</u>	<u>\$ 253,037,933</u>

During the year ended June 30, 2005 the District made additional borrowings of \$55,530,000 and paid principal payments of \$7,598,594.

School Building Refunding Revenue Bonds

During 2004, the Board issued school building revenue bonds totaling \$28,665,000 to advance refund certain bonded lease obligations totaling \$25,845,000. The advancing refunding resulted in a deferred loss (difference between new debt obligations and the refunded debt obligations) which will be amortized over the original remaining lives of the refunded debt. The balance of the unamortized deferred loss on advance refunding is \$2,403,015 as of June 30, 2005. The net proceeds from the issuance of the refunding issues were used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Board's long-term debt obligations. The advance refunding was undertaken to reduce total debt service payments by \$1,455,776 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,219,306.

During 2005, the Board issued school building revenue bonds totaling \$52,710,000.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

NOTE H - OPERATING LEASE

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2005:

Year Ending <u>June 30,</u>	
2006	\$ 104,998
2007	100,499
2008	99,000
2009	<u>57,750</u>
Total	\$ <u>362,247</u>

Total rent expense amounted to \$113,849 for the year ended June 30, 2005.

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

The District is the plaintiff in a condemnation action against a defendant. The parties are currently engaged in discovery to determine the other party's opinion and witnesses concerning valuation of a 15 acre tract. The District may be required to pay an additional amount ranging from \$128,800 to \$825,000. This liability has not been recorded as of June 30, 2005.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with perils such as fire, personal liability, theft, vehicular accidents, errors and omissions, and fiduciary responsibility. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain coverages which are retrospectively rated, including Workers' Compensation insurance.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. Various public entity risk pools within the Trust operate as common risk management and insurance funds for school districts and other tax supported educational agencies which are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by the fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) is to be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Beginning in July 2004, the District implemented a new arrangement with the Kentucky School Board Insurance Trust Liability Insurance Fund for workers' compensation. Under the new arrangement, the District is responsible for the first \$15,000 of each claim incurred during the fiscal year, up to a \$600,000 stop-loss amount. If and when the deductible amounts paid by the District reach the \$600,000 stop-loss amount, the District ceases to be liable for any further expenses related to those claimants. At that point the District becomes responsible for a \$1,000 per claim "maintenance deductible" for additional claims. At June 30, 2005, the District has a reserve in the amount of \$529,547 for claims incurred by not yet reported.

NOTE M - RETIREMENT PLAN

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program at 13.105%.

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). All persons serving the District as a substitute are also covered by KTRS regardless of education.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 8.48% of the employee's total compensation subject to contribution.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2005

The Board's total payroll for the year was \$188,740,330. The payroll for employees covered under KTRS was \$145,458,336 and for CERS was \$37,537,198.

The contribution requirement for CERS for the year ended June 30, 2005 was \$5,060,014 which consisted of \$3,183,154 from the Board and \$1,876,860 from the employees. The Board paid \$1,659,711 from federal grant monies to KTRS in matching contributions for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>June 30, 2004</u>	<u>CERS</u> <u>June 30, 2004</u>
Assets available for plan benefits, at fair value	\$ 14,255,131,000	\$ 5,187,851,530
Pension benefit obligation	<u>(17,617,626,000)</u>	<u>(4,936,459,488)</u>
	<u>\$ (3,362,495,000)</u>	<u>\$ 251,392,042</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2004 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2005

NOTE N - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Capital Outlay	\$	(236,431)
Building Fund		(2,197,356)

NOTE O - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss contingency.

NOTE P - ON-BEHALF PAYMENTS

For the year ended June 30, 2005 total payments of \$35,679,705 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenue, expenses and changes in fund balances. These revenues and expenditures are not budgeted by the District.

NOTE Q - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Food Service Fund	\$ 542,142	\$ -
Food Service Fund:		
General Fund	-	542,142

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2005

NOTE R - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	Building	Debt Service	Debt Service	\$ 9,051,063
Operating	Building	Construction	Construction	4,038,181
Operating	Capital Outlay	Construction	Construction	242,936
Operating	Capital Outlay	Debt Service	Debt Service	2,463,268
Operating	General	Construction	Construction	4,200,698
Operating	General	Special Revenue	KETS recapture	569,425
Operating	Special Revenue	General	Special Revenue	864,229
Operating	Special Revenue	Construction	Construction	42,730
			Indirect Costs	
Operating	Special Revenue	General	Transfer	1,183,490
	Other Enterprise			
Operating	Fund	Special Revenue	Reclass fund type	41,782

NOTE S - COMMITMENTS

The Board has entered into the following construction contracts as of June 30, 2005:

Cassidy roof replacement	\$ 502,800
Henry Clay Connector	2,871
Athens-Chilesburg	<u>114,700</u>
	<u>\$ 620,371</u>